



WEINLANDER FITZHUGH

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FAIRGROVE TOWNSHIP
TUSCOLA COUNTY, MICHIGAN

FINANCIAL STATEMENTS
MARCH 31, 2005

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RSM McGladrey Network

An Independently Owned Member

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name FAIRGROVE TOWNSHIP	County TUSCOLA
Audit Date 3/31/05	Opinion Date 7/12/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH			
Street Address 1600 CENTER AVENUE		City BAY CITY	State MI
Accountant Signature <i>Stewart J. Reid CPA</i>		ZIP 48708-0775	Date <i>9/21/05</i>

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INDEPENDENT AUDITORS' REPORT

July 12, 2005

Township Board
Township of Fairgrove
Tuscola County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Township of Fairgrove, Tuscola County, Michigan as of and for the year ended March 30, 2005, which collectively comprise the Township's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and aggregate remaining fund information of the Township of Fairgrove as of March 31, 2005, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2004.

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WEINLANDER FITZHUGH

Township Board
Township of Fairgrove
July 12, 2005
Page 2

The accompanying management's discussion and analysis and budgetary comparison information, as listed in the index, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

Our discussion and analysis of the Township of Fairgrove's financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Township of Fairgrove financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending.

The fund financial statements look at the Township's operations in more detail than the government-wide financial statements by providing information about the Township's funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent or trustee.

The following summarizes the presentation included in this annual financial report.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

Budgetary Information for the General Fund (Required Supplemental Information)

Reporting the Township as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the Township's finances is, "Is the Township better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Township as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

These two statements report the Township's net assets as a way to measure the Township's financial position. The change in net assets provides the reader a tool to assist in determining whether the Township's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base, and facility conditions in arriving at their conclusion regarding the overall health of the Township.

Reporting the Township's Most Significant Funds

Fund Financial Statements

The Township's fund financial statements provide detailed information about the most significant funds – not the Township as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The Township's two types of funds, governmental and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

Governmental Funds

Most of the Township's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Township's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the Township's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the basic financial statements.

Fiduciary Funds

These funds are used to account for assets held in trust or as an agent for others. The Township uses these funds to account for perpetual care monies and current tax collections. All of the Township's fiduciary activities are reported in separate Statements of Net Assets and Changes in Net Assets. We excluded these activities from the Township's other financial statements because the assets cannot be utilized by the Township to finance its operations.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

Government-wide Financial Analysis

Financial position - The statement of net assets provides the perspective of the Township as a whole. Exhibit A provides a summary of the Township's net assets as of March 31, 2005.

<u>Exhibit A</u>	<u>Governmental Activities</u>
Assets	
Current and other assets	\$ 288,000
Capital assets - net of accumulated depreciation	<u>39,000</u>
Total assets	<u>327,000</u>
Liabilities	
Current liabilities	<u>8,000</u>
Net Assets	
Invested in property and equipment - net of related debt	39,000
Unrestricted	<u>280,000</u>
Total net assets	<u><u>\$ 319,000</u></u>

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

Exhibit A , on the previous page, focuses on net assets. The Township's total net assets were \$319,000 at March 31, 2005. Capital assets net of related debt, totaling \$39,000, compares the original costs, less depreciation of the Township's capital assets to long-term debt used to finance the acquisition of those assets.

The \$280,000 of unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Results of operations - The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended March 31, 2005. Exhibit B provides a summary of the Township's operations for the year. Since this is the first year the Township has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2004 is not available.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

Governmental
Activities

Exhibit B

Revenue

Program revenue:

Charges for services \$ 13,000

General revenue:

Property taxes 232,000

State revenue sharing 65,000

Interest and investment earnings 3,000

Other 13,000

Total revenue 326,000

Function/Program Expenses

General government 60,000

Public safety 55,000

Sanitation 84,000

Drains 50,000

Cemetery 22,000

Highways and streets 5,000

Total expenses 276,000

Increase in Net Assets \$ 50,000

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

As reported in the statement of activities, the cost of all of our *governmental* activities this year was \$276,000. Certain activities were partially funded by \$13,000 from those who benefited from the programs. We paid for the remaining "public benefit" portion of our Governmental activities with \$232,000 in taxes, \$65,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The Township experienced an increase in net assets of \$50,000, mainly due to deferring road work until next year.

The Township's Funds

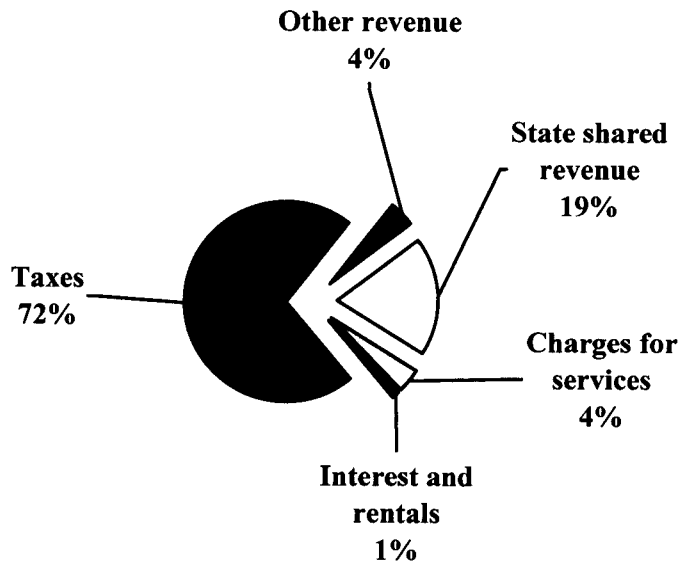
The Township uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Township is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Township's overall financial health.

The Township's governmental fund reported a fund balance of \$280,000, which is above last year's total of \$230,000. The schedule below details the fund balance and the total change in fund balances as of March 31, 2005 and 2004.

	<u>Fund Balance</u> <u>March 31, 2005</u>	<u>Fund Balance</u> <u>March 31, 2004</u>	<u>Increase</u> <u>(Decrease)</u>
General fund	<u>\$ 280,000</u>	<u>\$ 230,000</u>	<u>\$ 50,000</u>

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

The graph below details the major sources of the Township's revenues.



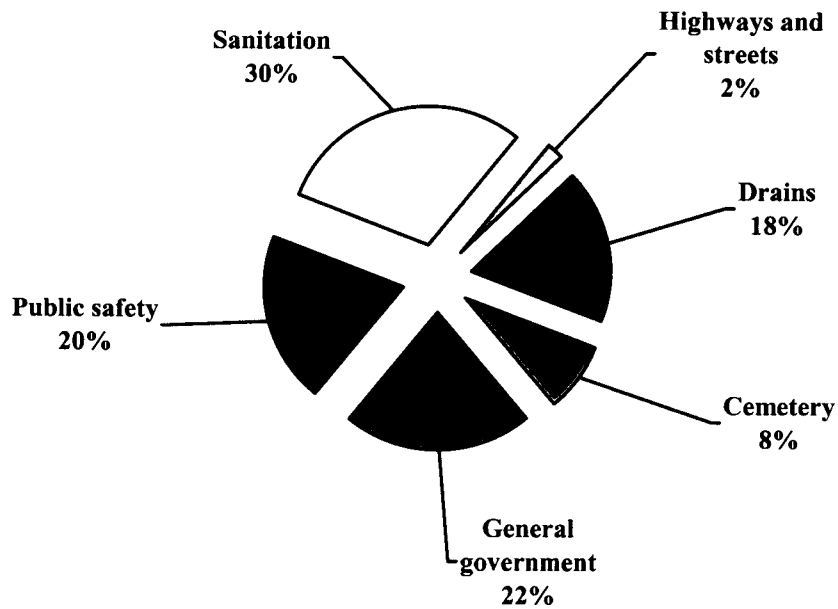
The chart below compares current year revenues with last year.

	2005 Amount	2004 Amount	Percentage Change
<i>Revenues by Function</i>			
Taxes	\$ 232,000	\$ 225,000	3%
State shared revenue	65,000	70,000	-7%
Charges for services	13,000	14,000	-7%
Interest and investment earnings	3,000	1,000	200%
Other	13,000	2,500	420%
Total	<u>\$ 326,000</u>	<u>\$ 312,500</u>	<u>4%</u>

Revenues are up \$13,500 mainly due to the library reimbursing the township for their portion of expenses.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

The graph below details the major expenditure categories of the Township.



The chart below compares current year expenditures with last year.

	2005 Amount	2004 Amount	Percentage Change
<i>Expenditures by Function</i>			
General Government	\$ 60,000	\$ 60,000	0%
Public Safety	55,000	55,000	0%
Sanitation	84,000	85,000	-1%
Drains	50,000	57,000	-12%
Cemetery	22,000	25,000	-12%
Highways and streets	5,000	96,000	-100%
Total	<u>\$ 276,000</u>	<u>\$ 378,000</u>	<u>-27%</u>

Expenditures are down \$102,000 from the prior year mainly due to deferring road work until next year.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

General Fund Budgetary Highlights

Over the course of the year, the Township revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Township's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

- No changes were made to the General Fund's original budget during the fiscal year.

Capital Assets

At March 31, 2005, the Township had \$39,000 invested in capital assets, including land and a building. This amount represents a net decrease (including additions and disposals) of \$750 or 1.9%, from last year.

	Governmental Activities	
	2005	2004
Land	\$ 39,000	\$ 39,000
Buildings and improvements	30,000	30,000
Total capital assets	69,000	69,000
Less accumulated depreciation	30,000	29,250
Net capital assets	<u>\$ 39,000</u>	<u>\$ 39,750</u>

There were no major expenditures during 2005 that met the criteria for capitalization.

We present more detailed information about our capital assets in the notes to the financial statements. We anticipate no capital additions next year.

FAIRGROVE TOWNSHIP
Management's Discussion and Analysis
For the Year Ended March 31, 2005

Factors Expected to Have an Effect on Future Operations

The funding level of state revenue sharing is uncertain, as the State of Michigan continues to use this as a means to balance the state budget.

During 2005-2006, the Township will be doing road work for a cost of approximately \$65,000.

Contacting The Township's Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, contact the Township Clerk's Office at 1954 Main St., Fairgrove, Michigan 48733.

FAIRGROVE TOWNSHIP
Statement of Net Assets
March 31, 2005

	Governmental <u>Activities</u>
<u>Assets</u>	
Cash and investments	\$ 257,596
Receivables:	
Taxes receivable	22,372
Due from fiduciary funds	7,823
Capital assets - less accumulated depreciation of \$30,000	<u>39,000</u>
Total Assets	<u>326,791</u>
<u>Liabilities</u>	
Accounts payable	<u>8,178</u>
<u>Net Assets</u>	
Invested in capital assets net of related debt	39,000
Unrestricted	<u>279,613</u>
Total Net Assets	<u><u>\$ 318,613</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Statement of Activities
For the Year Ended March 31, 2005

Functions/Programs Primary government:	Program Revenues			Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
General government	\$ 59,507	\$ 0	\$ 0	\$ 0
Public safety	54,894	0	0	0
Sanitary landfill	84,293	0	0	0
Drains	49,979	0	0	0
Cemetery	21,892	12,600	0	0
Highways and streets	5,486	0	0	0
Total primary government	\$ 276,051	\$ 12,600	\$ 0	\$ 0
General revenues:				
Property taxes				231,510
State shared revenues				64,885
Investment earnings				3,018
Transfer from fiduciary fund				101
Miscellaneous				12,958
Total general revenues				312,472
Change in net assets				49,021
Net assets - beginning of year				269,592
Net assets - end of year				\$ 318,613

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Governmental Funds
Balance Sheet
March 31, 2005

	<u>General Fund</u>
<u>Assets</u>	
Cash and cash equivalents	\$ 257,596
Taxes receivable	22,372
Due from other funds	<u>7,823</u>
Total assets	<u>\$ 287,791</u>
<u>Liabilities</u>	
Accounts, payroll, and taxes payable	\$ 8,178
<u>Fund Balance</u>	
Undesignated	<u>279,613</u>
Total liabilities and fund balance	<u>\$ 287,791</u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
March 31, 2005

Total fund balance - governmental funds	\$ 279,613
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	\$ 69,000	
Accumulated depreciation	<u>(30,000)</u>	<u>39,000</u>

Total net assets - governmental activities	<u>\$ 318,613</u>
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See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Governmental Funds
Statement of Revenues, Expenditures and
Changes in Fund Balance
For the Year Ended March 31, 2005

	General Fund
<u>Revenues</u>	
Taxes and penalties	\$ 231,510
State shared revenue	64,885
Other revenue	12,888
Grave openings	8,250
Sale of cemetery lots	4,350
Investment revenue	3,018
Licenses and permits	70
	<hr/>
Total revenues	324,971
	<hr/>
<u>Expenditures</u>	
Current:	
General government	58,757
Public safety	54,894
Sanitary landfill	84,293
Drains	49,979
Cemetery	21,892
Highways and streets	5,486
	<hr/>
Total expenditures	275,301
	<hr/>
Excess of revenues over expenditures	49,670
	<hr/>
<u>Other Financing Sources (Uses)</u>	
Operating transfers in	101
	<hr/>
Net change in fund balance	49,771
Fund balance - beginning of year	229,842
	<hr/>
Fund balance - end of year	<u><u>\$ 279,613</u></u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2005

Net change in fund balances - total governmental funds	\$ 49,771
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	<u>(750)</u>
Change in net assets of governmental activities	<u>\$ 49,021</u>

See accompanying notes to financial statements

FAIRGROVE TOWNSHIP
Fiduciary Fund
Statement of Net Assets
March 31, 2005

	Perpetual Care Fund	Current Tax Fund
<u>Assets</u>		
Cash and cash equivalents	\$ 13,064	\$ 7,823
Interest receivable	<u>138</u>	<u>0</u>
Total assets	<u>\$ 13,202</u>	<u>\$ 7,823</u>
<u>Liabilities</u>		
Due to other funds	0	7,823
<u>Fund balance</u>	<u>13,202</u>	<u>0</u>
Total liabilities and fund balance	<u>\$ 13,202</u>	<u>\$ 7,823</u>

See accompanying notes to financial statements.

FAIRGROVE TOWNSHIP
Fiduciary Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance
March 31, 2005

	<u>Perpetual Care Fund</u>
<u>Revenues</u>	
Interest	\$ 190
<u>Expenditures</u>	<u>0</u>
Excess of revenues over expenditures	190
<u>Other Financing Sources (Uses)</u>	
Operating transfers out	<u>(101)</u>
Net change in fund balance	89
Fund balance - beginning	<u>13,113</u>
Fund balance - ending	<u><u>\$ 13,202</u></u>

See accompanying notes to financial statements.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Fairgrove conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township of Fairgrove:

Reporting Entity

The Township of Fairgrove is governed by an elected five member council (Board). The accompanying financial statements present the financial position and results of operations for the Township.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township.

The Township reports the following major governmental fund:

General Fund - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land and buildings are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Buildings are depreciated using the straight-line method over the following useful lives:

Buildings	40 Years
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Long-term Obligations – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Compensated Absences – The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method. Leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future receive such payments upon termination.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Change – Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Net assets at April 1, 2004 have been restated as follows:

Total fund equity per 2004 financial statements	\$ 229,842
Capital assets owned by the Township	69,000
Accumulated depreciation on capital assets	<u>(29,250)</u>
Net assets at April 1, 2004, as restated	<u><u>\$ 269,592</u></u>

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The Township of Fairgrove follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township's supervisor submits to the Board a proposed budget prior to April 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 2 – BUDGETS (CONTINUED)

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund are presented as Required Supplemental Information.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Township's deposits are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

Governmental activities	\$ 257,596
Fiduciary funds	<u>20,887</u>
Total	<u><u>\$ 278,483</u></u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u><u>\$ 278,483</u></u>
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The bank balance of the Township's deposits is \$265,124, of which \$100,000 is covered by federal depository insurance.

The Township had no investments at March 31, 2005.

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Ending Balance</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 39,000	\$ 0	\$ 0	\$ 39,000
Capital assets being depreciated:				
Buildings and improvements	30,000	0	0	30,000
Less accumulated depreciation for:				
Buildings	29,250	750	0	30,000
Net capital assets being depreciated	750	(750)	0	0
Governmental activities, total capital assets - net of depreciation	<u>\$ 39,750</u>	<u>\$ (750)</u>	<u>\$ 0</u>	<u>\$ 39,000</u>

Depreciation expense was charged to functions as follows:

<u>Governmental activities</u>	
General government	\$ 750

NOTE 5 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

A summary of interfund receivable and payable balances at March 31, 2005 and transfers made during the year ended March 31, 2005 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers in</u>	<u>Transfers out</u>
General Fund	\$ 7,823	\$ 0	\$ 101	\$ 0
Current Tax Fund	0	7,823	0	0
Perpetual Care Fund	0	0	0	101
	<u>\$ 7,823</u>	<u>\$ 7,823</u>	<u>\$ 101</u>	<u>\$ 101</u>

FAIRGROVE TOWNSHIP
Notes to Financial Statements
For the Year Ended March 31, 2005

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables from the tax fund represent unremitted tax collections. Transfers from the Perpetual Care Fund represent interest income to be used to supplement maintenance costs.

NOTE 6 – PENSION PLAN

The Township provides pension benefits through a defined contribution plan with Manulife Financial. The Township contributes 15% of compensation for eligible employees. The Township's pension expense for the year ended March 31, 2005 amounted to \$4,254.

NOTE 7 – BUILDING LEASE

On March 1, 2005, the Township entered into a five-year lease agreement with the Fairgrove District Library for a portion of one of its buildings at an annual rate of \$1. The Library is responsible for two-thirds of the maintenance and insurance costs.

FAIRGROVE TOWNSHIP
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2005

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Property taxes	\$ 230,600	\$ 230,600	\$ 231,510	\$ 910
State shared revenue	60,000	60,000	64,885	4,885
Other revenue	1,500	1,500	12,888	11,388
Grave openings	7,000	7,000	8,250	1,250
Sale of cemetery lots	2,000	2,000	4,350	2,350
Investment revenue	1,000	1,000	3,018	2,018
Licenses and permits	50	50	70	20
Total revenues	302,150	302,150	324,971	22,821
<u>Expenditures</u>				
General government	72,400	72,400	58,757	13,643
Public safety	58,313	58,313	54,894	3,419
Sanitary landfill	90,000	90,000	84,293	5,707
Drains	55,000	55,000	49,979	5,021
Cemetery	30,000	30,000	21,892	8,108
Highways and streets	30,000	30,000	5,486	24,514
Total expenditures	335,713	335,713	275,301	60,412
Excess of revenues over (under) expenditures	(33,563)	(33,563)	49,670	83,233
<u>Other Financing Sources</u>				
Operating transfers in	0	0	101	101
Excess of revenues and other financing sources over (under) expenditures	(33,563)	(33,563)	49,771	83,334
Fund balance - beginning of year	229,842	229,842	229,842	0
Fund balance - end of year	\$ 196,279	\$ 196,279	\$ 279,613	\$ 83,334